



Building Success. Together.

Commercial Lending Fraud 2026



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Commercial Lending Fraud

- Defining Fraud / Lending Fraud
- Types of Commercial Lending Fraud
- Common Federal Law Violations
- Fraud Program, Detection, & Basic Controls
- Suspicious Activity Reporting
- Lender Misconduct / Insider Threat
- Case Study



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Definition of Fraud

- An act of intentional deception designed to exploit a victim
- Fraud involves deceit with the intention to illegally or unethically gain at the expense of another
- **Lending fraud or loan fraud** encompasses any kind of deceitful action designed to gain a financial advantage during the loan process
- **Lending Fraud** involves the false representation of facts, whether by intentionally withholding important information or providing false statements or documents to another party for the specific purpose of gaining something that may or may not have been provided without deception
- This representation can be *made by borrower, lender, or any number of professionals* involved in the process



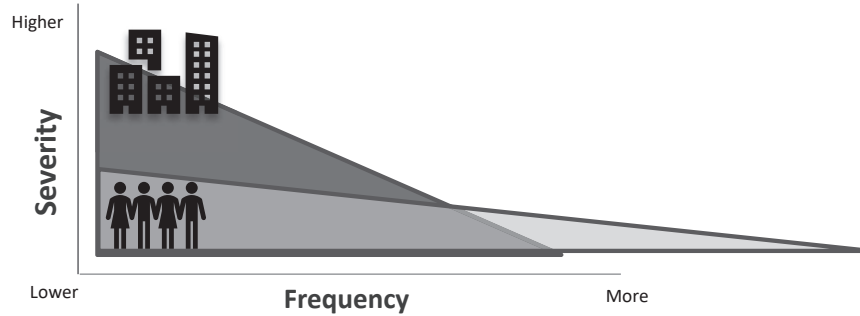
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Commercial Lending Fraud Risk



- Possesses the same types of risks as consumer lending
 - Higher Credit line assignments lead to higher severity of fraud event
 - Lower volumes and higher transaction complexity lead to lower frequency of fraud
- Bank's risk is Reputational and Regulatory.



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Types of Commercial Lending Fraud

- Falsified documents
- False statements about financial performance
- Nondisclosure of key information affecting lending decision
- Misappropriation of business funds for personal use
- Kickbacks to influence a loan decision
- Misappropriation of collateral (sold, diverted)
- Payment default



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Bank Related Frauds Are Federal Offenses

Title 18 of United States Code

- Intent to defraud, falsely make, forge, counterfeit, or alter any obligation or other security of the United States
- **Federal Felony:** fined or imprisoned not more than **20 years**, or both
- ❖ This means any transaction *at, to, or through* a bank is subject to this title
 - Transaction covers attempt(ed) financial transaction & attempt to obtain money

Common Title 18 Violations

Bank Fraud

- Involves false pretenses, representations, or promises to obtain money

Mail Fraud

- having devised/intended to devise a fraud
- and use of the mail, or attempt, to execute

Wire Fraud

- Use of interstate telephone call or electronic communication

False Statements

- **LIES**, whether verbal statement or written doc or whoever executes (i.e., sending wire) on a **known LIE**



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Title 18 – False Entries

- Both 18 U.S.C. § 1005 and § 1006 prohibit the making of false entries in any book, report, or statement with the intent to defraud the institution or to deceive any officer of the bank, examiner or agent appointed to examine the institution
- An entry in the books or records of a bank is false if it represents what is not true or does not exist. For purposes of this crime, an entry can be false if it omits, or leaves out, material information necessary to make what is stated or included in that entry not misleading or deceptive
- A loan officer intentionally falsifying or omitting application information is a violation of Title 18 False Entries



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Commercial Fraud Management Framework

TONE

Accountability
Documentation
Communication &
Training

CONTROLS

Effective Controls
Regular Assessment

RESPONSE

Investigations
(Fraud / BSA)
Reg Reporting &
Dispositioning



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Apply Key Anti-Fraud Measures Through Collaboration

- ✓ **File reviews** (QA & Policies followed)
- ✓ **Loan Committees** (frauds are identified)
- ✓ **Loan Authority Limits** (checks & balances)
- ✓ **Central Underwriting** (consistent process)
- ✓ **Escalation Process** (define thresholds)
- ✓ **New Product / Channels** (BAU controls)
- ✓ **Self-Assessment processes** (Ops Risk)



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Bank Secrecy Act Requirement



Identifying Suspicious Activity

- **Onboarding / Application**
 - False identification
 - Misleading financial information
- **Servicing Relationship**
 - Financial activity match business purpose?
 - Funds properly appropriated/disbursed?
- **Know Your Customer (KYC/CIP)**
 - Flipping/Straw Buyer to increase credit
 - Collateral Transferees active business partners or possible high-risk entity?

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Suspicious Activity Reports

- Regulatory required – reporting is normally centralized in a fraud or money laundering department
- Covers both outsider and insider actions (Title 18 violations primarily specific to loan fraud)
- Critical part of detection and prevention efforts through the aggregation of data
- Enables law enforcement agencies to uncover and prosecute criminal activity, and for government agencies to spot emerging trends across a broad spectrum of personal and organized crimes to counteract
- Commercial lending fraud is often viewed as a 'credit risk' and not 'fraud' and does not get reported – major compliance issue.

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Know Your Customer



- Domenick Pucillo, a convicted associate of the Genovese organized crime family
- Pucillo one of the largest check cashers in New York-New Jersey
- Highest-risk Check Cashing Group customers
- *Business banked with limited control and oversight*
- OCC C.O. & fine = \$100M
- FinCEN fine = \$390M



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Lender Misconduct / Insider Threat



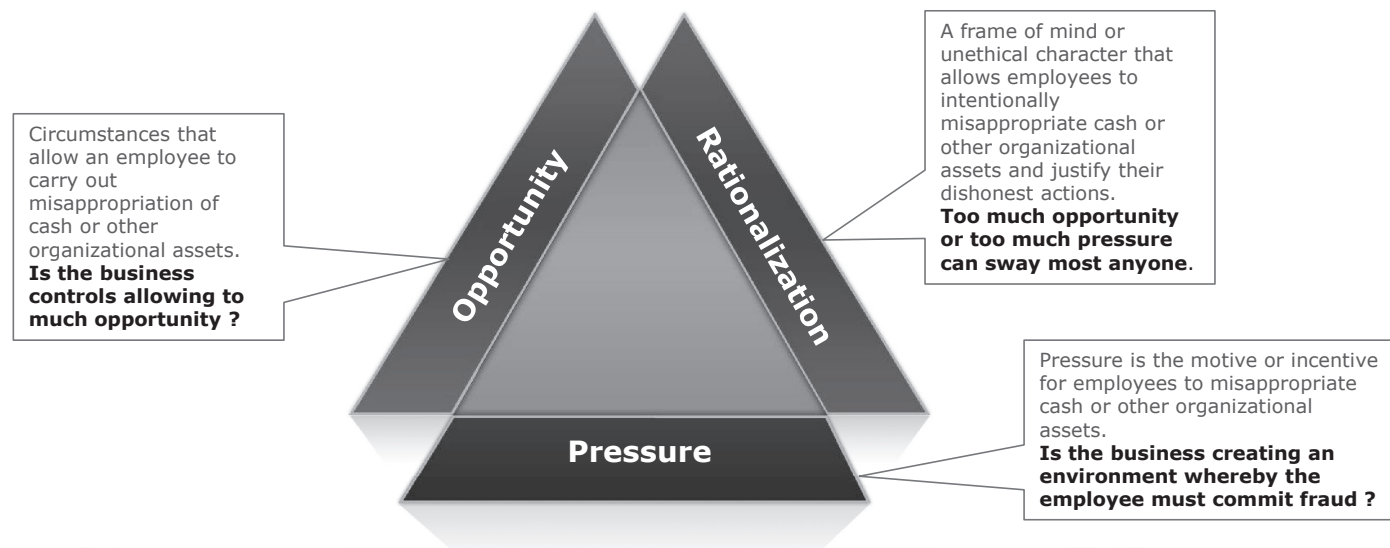
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Academic Fraud Triangle

Belief is that for fraud to occur, all three elements of the triangle need to be present



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Employee Conduct Awareness Spectrum

*aware not – aware but – aware don't care – aware policy violation – **aware fraud***



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Criticality of Maintaining High Personal and Professional Ethical Standards



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Employee Bonding

- Federal regulations prohibit hiring those who do not meet the Financial Institution Reform Recovery and Enforcement Act (FIRREA) or the Bankers Blanket Bond requirements.
- FIRREA prohibits employment of persons who have been convicted of or participated in a pre-sentence diversion program resulting from an act of dishonesty or breach of trust.
- The Bankers Blanket Bond does not cover any employee who has committed an act of breach of trust or dishonesty at any time in connection with employment or been convicted of a felony in the past 5 years.



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Case Study

Examining a real-world fraud case that exemplifies a worst-case scenario for an institution



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ABA FRAUD RESOURCE PAGE

ABA.com/fraud

To find out if your bank is an ABA member, or to learn more about becoming one, visit:

ABA.com/membership

ABA Committees, Councils and Working Groups.
Learn more at: ABA.com/experts-peers/committees-councils

Some of ABA Fraud Resources Include:

ABA Fraud and Scams Exchange

ABA Frontline Training Course on Check Fraud

ABA Fraud Contact Directory

Banks Never Ask That & Practice Safe Checks

ABA Treasury Payee Verification

ABA Check Fraud Product Assessment

ABA Fraudcast

ABA Compliance Hotline

ABA Check Fraud Toolkit

Learn more at ABA.com/Fraud



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